FISCAL NOTE

Bill #:	**SB0048**	**Title:**	**Fund trust land management functions**
Primary Sponsor:	**Chuck Swysgood**	**Status:**	**As introduced/Revised**

Sponsor signature Date   Dave Lewis, Budget Director Date

Fiscal Summary

	FY2000 Difference	**FY2001 Difference**
Expenditures:		
General Fund	(3,542,739)	(3,529,269)
State Special Revenue	3,542,739	3,529,269
Revenue:		
General Fund	(150,566)	(368,498)
State Special Revenue	3,542,739	3,529,269
Other (Permanent Fund)	(3,542,739)	(3,529,269)
Net Impact on General Fund Balance:	**3,392,173**	**3,160,771**

Yes	No		Yes	No	
	X	Significant Local Gov. Impact		X	Technical Concerns
X		Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

Department of Natural Resources and Conservation

1. The term "Permanent Fund" as utilized throughout this fiscal note means the sum of all trusts managed by the DNRC Trust Land Management Division. Those trusts are the Public School Trust Fund, the University of Montana Trust, the Montana State University – Morrill Grant Trust, the Montana State University – Second Grant Trust, the Montana Tech of the University of Montana Trust, State Normal School Trust, School for the Deaf and Blind Trust, State Reform School Trusts, and the Veterans Home Trust.

2. In any given year no individual trust will have greater than the 1 1/8% of the balance in that respective account on January 1 of the preceding year diverted to the new trust land administration account.
3. The Permanent Fund balance will be $342,500,000 on January 1, 1999. The cap of 1 1/8% of that balance will equal $3,853,125.
4. The Executive Budget for the Trust Land Management Division requests $3,542,739 in general fund for FY2000. This legislation would substitute state special revenue for this general fund amount and therefore, make this general fund amount available for other uses. The Executive Budget and SB49 propose to utilize these funds in coordination with the allocation of RIT funds.
5. The Permanent Fund balance will be $353,128,631 on January 1, 2000. The cap of 1 1/8% of that balance will equal $3,972,697.
6. The Executive Budget for the Trust Land Management Division requests $3,529,269 in general fund for FY2001. This legislation would substitute state special revenue for this general fund amount and, therefore, make this general fund amount available for other uses. The Executive Budget and SB49 propose to utilize these funds in coordination with the allocation of RIT funds.
7. The Board of Investments predicts the investment interest rate from the Permanent Funds to be 6.5% for FY2000 and FY2001.
8. Revenues flowing to the Permanent Fund have averaged $12,400,000 per fiscal year over the past five-year period. This average is expected to continue into the next biennium.
9. The new state special revenue account would reduce revenues flowing to the Permanent Fund by $3,542,739 in FY2000 and $3,529,269 in FY 2001.
10. Nonexpendable trust fund interest earnings will be distributed 95% to the interest and income account in the state general fund; and 5% to the corpus of the nonexpendable trust fund, or to the trust land administration account, as required, to meet the annual appropriation to this account.
11. The reduced revenues flowing to the Permanent Fund would result in a slower growing principal for investment. Therefore, a slower growing principal would result in slower growth in investment returns, which would amount to reduced investment income gains of $218,764 in FY2000 and $436,696 in FY2001, calculated based upon $3,542,739 x .065 x .95 for FY2000 and $7,072,008 x .065 x .95 in FY2001.
12. The monies deposited in the trust land administration account would be invested in the short-term investment pool until expended on trust management activities. STIP earnings are deposited to the general fund. Therefore, these STIP earnings would, to some extent, offset the lost interest earnings from the amounts not being deposited in the permanent trust fund (#11). STIP earnings are estimated to be approximately $68,198 per fiscal year. This STIP earning estimate is based upon other similar funding accounts managed by the department that have average interest returns of 5.25%.
13. The act is effective July 1, 1999.

Office of Public Instruction:

14. SB48 has no impact on OPI or on the distribution to schools.

Department of Corrections:

15. Pine Hills residential cost currently is budgeted some interest and income revenue. To the extent this is minimally impacted, it may be absorbed or adjusted.

FISCAL IMPACT:

Department of Natural Resources and Conservation

	FY2000 Difference	FY2001 Difference
Funding:		
General Fund (01)	(3,542,739)	(3,529,269)
State Special Revenue (02)	3,542,739	3,529,269
Revenues:		
General Fund (01)	(150,566)	(368,498)
State Special Revenue (02)	3,542,739	3,529,269
Other (Permanent Fund)	(3,542,739)	(3,529,269)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	3,392,173	3,160,771
State Special Revenue (02)	3,542,739	3,529,269
Other (Permanent Fund)	(3,542,739)	(3,529,269)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

There will be no impact to overall school funding. The legislature appropriates the school funding regardless of the amount of revenues flowing into the General Fund from the administration of school trust lands.

LONG-RANGE IMPACTS:

Department of Natural Resources and Conservation

1. The growth of the permanent school trust funds plus interest and income that is distributed will be slowed.
2. However, greater flexibility and security in funding of trust programs will result in greater returns that may over time make up the difference in slowed growth of the Permanent Fund.

TECHNICAL NOTES:

Department of Revenue

1. Section 2(1)(b) refers to "the proceeds from the sale of trust land, easements, and timber". It is not clear if the reference to timber refers to revenue from the sale of timber on school trust lands or on other state lands. The distinction is important, because sales of timber on school trust lands is directed 95% to the general fund directly, whereas sales of timber on other state lands is directed to the body of the non expendable trust fund, where only the interest earnings on the revenue from those sales is subsequently directed to the general fund. The bill should be amended to clarify that sales of timber refers to sales from lands other than school trust lands to be consistent with the intent of the legislation, and with the fiscal impacts provided in this fiscal note.